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S E C R E T SECTION 01 OF 03 RIGA 000731

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SUBJECT: PREVENTING FURTHER LATVIAN BACKSLIDING ON RULE OF LAW

REF: A) 06 RIGA 792 B) RIGA 56 C) RIGA 685 D)

TD-314/57033-07 E ) RIGA 714 F) RIGA 723

Classified By: Ambassador Catherine Todd Bailey. Reason: 1.4 (D)

¶1. (C/NF) Summary: One year ago, we said that the outcome of Latvia's parliamentary elections in October 2006 would be key to determining whether Latvia would continue to move forward to strengthen the rule of law or regress to old and non-transparent ways of doing business. Developments since then have shown little forward progress and plenty of backsliding. We believe we are at a critical juncture in Latvia. As the legal noose tightens around several oligarchs, they are making more brazen attempts to manipulate political power to protect their interests. The potential for significant, lasting damage to the rule of law is high and active US engagement with Latvian leaders is needed to reinforce their commitment to the values that underpin our bilateral and NATO relationships and protect our interests in Latvia. We should use PM Kalvitis' likely visit to Washington in early November to press this point. Most importantly for the longer term, though, we need to encourage and empower the Latvian people to take ownership of their country and engage actively when they see things they know to be wrong. End summary.

¶2. (C/NF) In the run up to and immediate aftermath of the October 2006 parliamentary elections, we identified the path of the rule of law in Latvia as the perhaps the most important issue in the election, although it was barely mentioned in the campaign (ref A). Events have borne this out. Attempts to place "friendly" judges on the constitutional courts, proposed changes to the law to increase the possibility of political manipulation of the security services, and the relatively weak handling of a case involving two oligarchs' attempts to manipulate the mayoral elections in the resort town of Jurmala put us on notice at the start of the year that things were headed in the wrong direction (ref B). The process by which current President Valdis Zatlers was elected in May seemed to indicate that the ruling coalition was operating entirely in its own interest. But then there were signs of progress. Aivars Lembergs, the mayor of Ventspils, was arrested on serious charges of corruption (ref C) and the prosecutor's office is making progress in efforts to level charges against former PM Andris Skele for his role in a multi-million scam related to digital TV.

¶3. (S/NF) It is perhaps because of these last two items that we find ourselves in a period of increased difficulty. In the natural reaction of someone who is cornered, as the noose tightens the oligarchs are lashing out. Lembergs is constrained a bit by the terms of his house arrest, but with no judicial proceedings having actually begun, plenty of people are still willing to act on the basis of his instructions. At the same time, the slight reduction in

Lembergs' influence (especially for the four months he was in jail) has put Skele possibly at the height of his power. He has achieved an almost Voldemort like quality where no one dares speak his name, fearing the wrath of the dark lord, but instead stroke their chins (to symbolize his beard) or talk about things "in the clouds" to refer to Skele. All indications are that Skele handpicked Zatlars as President. And we strongly believe that Skele ensured the placement of Normans Belskis as an advisor (but de facto parallel chief of staff) in Zatlars' office despite Belskis' ineligibility for a security clearance (ref D). While Lembergs and Skele are among the biggest fish, they are far from the only problematic individuals in Latvia. They are, however, the highest profile representation of a class of individuals who manipulate politics and government to serve their personal financial interests.

¶4. (C/NF) In the last week, we have seen two dramatic events - the resignation of Speaker Emsis and replacement with a political unknown close to Lembergs (ref E) and the suspension of anti-corruption chief Loskotovs (ref F). While these have grabbed all the attention, perhaps the most important news was the indictment Sep. 21 of Jurgis Liepnieks for fraud and other charges in the digital TV case. Liepnieks was most recently PM Kalvitis' chief of staff and held the same position when Skele was PM in the late-1990's. Liepnieks had a major falling out with Skele in 2006 and has cooperated with prosecutors to turn state's evidence against him in the digital TV case. (Note: Prosecutors hoped to plea bargain with Liepnieks, but the chair of parliament's legal affairs committee, a close Skele ally, has kept the necessary legislation bottled up in committee. End note.)

¶5. (C/NF) We believe that these are not the last steps we will see. We expect attempts will be made to remove

RIGA 00000731 002 OF 003

Prosecutor General Janis Maizitis and Intelligence (SAB) chief Janis Kazocins in coming months. In the latter case, Kazocins' term is up in early 2008, so it is more likely that the oligarchs will wait until they can replace him in the normal course of events, unless they think doing it sooner will protect them from prosecution. We also expect further attempts to weaken the laws governing the security services. These steps will continue even after a possible Skele indictment as they have since Lembergs' arrest. It will take public revelation of damning evidence (which we believe the prosecutor is developing) against both to get the public and politicians to decide that the calculus of power had changed and to abandon these two individuals.

¶6. (S/NF) We believe that key US interests are at stake here. As a NATO ally and through other arrangements, we have good intelligence cooperation with Latvia. If more and more unsavory people are let in to government and the legal checks and balances are eroded, we could be faced with a situation in which we could not assure the protection of our sensitive information and in which the reliability of Latvia as an ally and partner would be called into question. We want to underscore that we are not quite yet there, but it is possible to see a path that would lead us to that point. Moreover, as we pursue the President's freedom agenda in Eastern Europe, it would undercut our message elsewhere in the region if we were to let Latvia backslide on rule of law and transparency issues.

¶7. (C/NF) In the short term we need to step up our engagement with the GOL to press upon them the importance of preserving and strengthening the rule of law. The United States retains the weight in the eyes of many (but not all) of Latvia's leaders to influence this process positively. We shouldn't pull any punches, but we need to mix our concern with reminders that we come as friends who want to help Latvia solidify its democracy. With the departure of President Vike-Freiberga from office, we lost the moral compass of Latvia. She was willing to work beyond the President's

limited constitutional role to defend the basic values of democracy. Zatlars is unable as a result of his inexperience and perhaps unwilling as a result of his experiences to take up this role. As a result, the key interlocutor for us becomes PM Kalvitis. Kalvitis is no angel, but we also believe that he is not fully in the Skele camp. Our sense is that he often knows the right thing to do, but lacks the courage to do it because he feels he will be left standing alone. He also has an unfortunate ability to justify to himself some of the poor choices he makes. For example, in the case of the Loskotovs dismissal he seems to have convinced himself that Loskotovs was abusing his power and the PM has reacted angrily, even in private, to suggestions that Skele or anyone else made him do it. In the case of the security laws, he initially refused to accept that anyone would want to interfere in the work of law enforcement agencies for political reasons. The reality of coalition politics and the electoral calendar mean that Kalvitis is probably the best person we could have in the PM's chair right now. Better options are unlikely to win support in parliament and there are a quite a few worse options who could be installed in the office if Kalvitis were pushed out.

¶18. (C/NF) Ambassador Bailey met with Kalvitis one on one on both September 24 and 26 to discuss these issues. She stressed that she was coming as a friend and urged the PM recall the lessons of the security laws that he had dismissed and later been overruled by the President and rebuked in a referendum. She stressed the need for the PM to lead a clean government and to focus on the rule of law. She noted the importance of bringing in new people when vacancies occur in key jobs rather than recycling people who have worked in (and are likely tainted by) previous governments. While it is too early to tell what effect these meetings had, the PM clearly heard the message and was considering it.

¶19. (C/NF) Kalvitis is planning an early November visit to Washington and it will be essential that USG officials meeting with him deliver similar messages. We will provide suggested themes closer to the visit. In the meantime, we urge State and the NSC to call in Ambassador Pildegovics and register our concern at recent events in Latvia and ask him to provide an explanation. The Ambassador is an ally on these issues and having him hear of our concern directly in Washington will empower him to amplify our message to the GOL.

¶110. (C/NF) Longer term, we at post will need to develop a strategy to engage the Latvian public to take greater ownership of their country. Sated with improved quality of life and NATO and EU membership, the Latvian people have been unwilling to expend the time and energy to express their own outrage at the course of events (although they love to

RIGA 00000731 003 OF 003

complain about it on the street, in shops, and over coffee.) We will be increasing our public outreach efforts to remind Latvians that freedom and democracy come with many rights but also with responsibilities. We will also consider other ways to encourage Latvians to engage on the situation in their own country. They cannot substitute our protection of our interests for their personal involvement in the affairs of their own country.

¶111. (C/NF) It is difficult and even risky to identify a moment as critical when you are living it. Often it is only clear with hindsight. But we believe that we are at an important point in Latvia's development. Latvia can consolidate the gains made on the path to EU and NATO membership, or it can abandon them and focus on enriching a few high officials. It is in our interest to help the government and, more importantly, the people of Latvia to make the right choice.

BAILEY